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JAPAN'S FISCAL POLICY: WHERE'S THE DEBT?

Summary

Japan's fiscal planners continue to suffer an embarrassment of riches. The budget surplus from FY 1987 set a record, and tax revenues probably will outstrip estimates again once all FY 1988 figures are in. This allows Tokyo to expand spending for defense, foreign aid and public works while simultaneously cutting the current budget deficit sharply. The Ministry of Finance is confident that it can fulfill former Prime Minister Yasuhiro Nakasone's pledge to eliminate the need for deficit-financing bond issues by FY 1990.

Realizing that the current surfeit is a temporary situation, government fiscal planners are laying the foundation for future solvency. The recently introduced 3 percent consumption tax is a controversial example. More fundamentally, the structure of Japan's fiscal system is increasingly out of step with the rapidly evolving Japanese economy and financial system.

Foreward

The FY 1989 general account budget had not received full Diet approval at JEI press time; thus, it may appear premature to examine fiscal policy developments. The Diet process, however, has not been halted because of disagreement over the contents of the budget but rather over unrelated political issues. No changes to the spending plans laid out in the general account and the Fiscal Investment and Loan Program, a second capital budget, were made by the lower house, and it is highly unlikely that the upper house would seek modifications. As for taxes, the cabinet has submitted some minor technical corrections for FY 1989. If major reforms are to be proposed in FY 1989, they most

likely will be the subject of a special Diet session. On both the spending and the tax fronts, therefore, what the cabinet adopted in January is likely to become law without alterations.

Overview

Until FY 1987 Tokyo steadfastly pursued an austere fiscal policy not only to halt the growth of the government's current and cumulative debt but to pare it back. Japan's large current account surpluses generated foreign pressure to stimulate its domestic economy, which Tokyo did through sharply increased public works spending. Current fiscal policy, however, is something of a paradox: keeping commitments to expand particular types of spending while cutting the overall deficit. Tokyo can do this in part due to booming revenues but also because it has another capital budget, the Fiscal Investment and Loan Program.

General Account Expenditures - The turning point in Japanese fiscal policy is clear from Table 1. The sharp jump in the growth of the general account budget in FY 1987 marked the end of an "austerity-only" policy and the start of the current "austerity/expansion" policy. Most budget categories showed growth rates several times the level of the previous year, most notably public works (from 0.3 percent to 6.9 percent), economic cooperation (from 3.3 percent to 10.1 percent), education and science (from -0.4 percent to 3.6 percent) and miscellaneous outlays (from -5.6 percent to 4.6 percent).

FY 1988 outlays continued the trend but with several noticeable changes. Foreign aid and defense remained safe from the budget cutters' knives. The modest 3.2 percent gain for economic cooperation is misleading, because some related outlays, such as increased trade insurance for debt-strapped countries and funds to support United Nations activities, are hidden in other categories. Most other budget line items show reductions, many of which not only erased but surpassed the gains of the previous year. Under normal circumstances many of the shortcomings of the initial budget are amended by a supplemental budget approved in the second half of the fiscal year. While FY 1988's supplemental spending plan was large compared to recent years, several of the categories that normally are beefed up were left out, such as small business assistance, energy programs and regional development projects (see Table 2). Instead, the largest chunks of discretionary funds were directed at a special replenishment of the public welfare insurance fund and a reduction of the outstanding national debt. (The amount of transfers to local governments -- the largest expenditure item -- are mandated by a fixed tax revenue-sharing formula.)

FY 1988's public works spending indicated another new development. Tokyo is committed to boost domestic demand in part through increased investment in roads, bridges and other infrastructure projects. The Ministry of Finance, however, now appears to dislike using the general account budget for this purpose as shown by the 10.1 percent decline (despite added funds from the supplemental budget) in last year's public works category. As will be detailed later, the Fiscal Investment and Loan Program is now the favored vehicle to support public works.

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Table 1: Japan's General Account, FY 1985-FY 1989

(in billions of yen and percent change)

	FY 1985 (revised)		FY 1986 (revised)		FY 1987 (revised)		FY 1988 (revised)		FY 1989* (initial)	
Total Expenditures	Y53,222.9	3.3%	Y53,824.8	1.1%	Y58,214.2	8.2%	Y61,851.7	6.2%	Y60,414.2	6.6%
Social Security	9,830.8	1.5	10,090.3	2.6	10,321.8	2.3	11,892.3	15.2	10,894.7	4.9
Public Assistance	1,082.2	-8.9	1,110.4	2.6	1,105.2	-0.5	1,089.7	-1.4	1,141.6	4.8
Social Welfare	2,056.2	2.1	1,977.8	-3.8	2,033.2	2.8	2,082.7	2.4	2,230.9	7.1
Social Insurance	5,847.5	4.1	6,137.3	5.0	6,310.2	2.8	7,852.7	24.4	6,641.2	4.7
Health Services	464.4	-4.4	497.2	7.1	512.3	3.0	507.1	-1.0	526.9	3.9
Unemployment Compensation	380.5	0.6	367.6	-3.4	361.0	-1.8	360.0	-0.3	354.1	-1.6
Education and Science	4,904.3	-0.3	4,886.6	-0.4	5,063.7	3.6	4,858.1	-4.1	4,937.1	1.6
Compulsory Education	2,415.2	2.0	2,414.9	-0.0	2,392.9	-0.9	2,378.3	-0.6	2,387.7	0.4
Transfer to School Account	1,075.1	-2.0	1,083.7	0.8	1,180.1	8.9	1,102.7	-6.6	1,140.8	3.5
Science Promotion	375.4	0.2	381.8	1.7	473.5	24.0	417.3	-11.9	448.0	7.4
School Facilities	385.5	-9.8	350.0	-9.2	354.6	1.3	286.2	-19.3	263.2	-8.1
School Aid	569.6	0.5	575.7	1.1	580.9	0.9	590.3	1.6	614.4	4.1
Student Loans	83.6	-3.0	80.5	-3.7	81.7	1.5	83.3	2.0	83.0	-0.5
National Debt Service	10,180.5	10.3	10,664.4	4.8	11,851.4	11.1	11,512.0	-2.9	11,664.9	1.3
Pensions	1,863.7	-1.2	1,850.1	-0.7	1,895.6	2.5	1,879.8	-0.8	1,855.8	-1.3
Civil Servants	124.8	-2.8	121.4	-2.7	122.2	0.7	118.1	-3.4	111.8	-5.3
Veterans	1,578.7	-1.4	1,562.6	-1.0	1,606.9	2.8	1,599.0	-0.5	1,588.5	-0.7
Administrative Costs	10.4	-1.4	10.3	-0.0	8.9	-14.3	8.4	-5.4	8.0	-4.3
War-bereaved Families	149.9	2.7	155.9	4.0	157.6	1.1	154.4	-2.0	147.4	-4.5
Local Finance	9,690.1	5.1	9,734.7	0.5	11,086.2	13.9	13,031.2	17.5	13,368.8	22.6
Local Allocation Tax	9,690.1	7.2	9,734.7	0.5	11,086.2	13.9	13,031.2	17.5	13,368.8	22.6
Defense	3,169.7	7.0	3,338.0	5.3	3,507.8	5.1	3,700.3	5.5	3,919.8	5.9
Public Works	6,922.3	0.6	6,946.3	0.3	7,428.0	6.9	6,680.4	-10.1	6,197.4	1.9
Erosion and Flood Control	1,082.8	-1.4	1,101.4	1.7	1,221.9	10.9	1,058.9	-13.3	1,080.2	2.0
Road Improvement	1,856.1	-2.3	1,826.3	-1.6	1,983.8	8.6	1,743.2	-12.1	1,781.9	2.2
Harbors and Airports	511.9	-1.5	517.3	1.1	563.7	9.0	496.8	-11.9	511.3	2.9
Housing	927.9	1.5	940.2	1.3	964.4	2.6	930.3	-3.5	764.4	1.8
Social Infrastructure	970.3	-1.0	989.0	1.9	1,106.1	11.8	942.5	-14.8	954.8	1.3
Agricultural Infrastructure	879.0	-1.5	886.9	0.9	963.7	8.7	851.7	-11.6	867.3	1.8
Forest Roads and Water	169.6	-2.1	170.4	0.5	181.2	6.3	163.0	-10.1	160.2	-1.7
Adjustment Reserves	10.7	-2.2	11.3	5.6	11.8	3.6	10.3	-11.6	10.6	1.9
Disaster Reconstruction	514.0	30.6	503.5	-2.0	431.6	-14.3	483.7	12.1	66.7	2.5
Economic Cooperation	581.3	7.5	600.5	3.3	661.3	10.1	682.2	3.2	727.8	6.7
Small Business Assistance	211.9	-8.0	225.6	6.5	263.2	16.6	195.3	-25.8	194.3	-0.5
Energy Support	626.2	2.6	570.5	-8.9	496.8	-12.9	461.6	-7.1	527.5	14.3
Food Agency Account	695.2	-14.0	613.8	-11.7	688.2	12.1	448.2	-34.9	418.2	-6.7
Miscellaneous	4,346.9	-0.5	4,104.0	-5.6	4,292.2	4.6	3,913.5	-8.8	4,058.1	3.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	946.9	**	0.0	**
Reserves	200.0	17.6	200.0	0.0	200.0	0.0	350.0	75.0	350.0	0.0
Social Capital					458.0	**	1,300.0	183.8	1,300.0	0.0
Total Revenues	53,222.9	3.3	53,824.8	1.1	58,214.2	8.2	61,851.7	6.2	60,414.2	6.6
Tax and Stamp Revenues	38,145.0	9.5	39,440.0	3.4	43,087.0	9.3	48,106.0	11.6	51,010.0	13.1
Monopoly Profits	6.6	-99.4	7.6	15.2	6.0	21.1				
Public Enterprise Receipts	15.9	3.2	16.7	5.0	17.5	4.8	2,804.2	24.7	2,293.2	-17.2
Sale of Public Properties	157.9	71.1	134.5	-14.8	180.6	34.3				
Miscellaneous	2,254.0	-1.3	2,289.7	1.6	2,044.7	-10.7				
Public Bonds	12,438.0	-3.3	11,495.0	-7.6	10,539.0	-8.3	7,967.0	-24.4	7,111.0	-19.6
Construction	n.a.	**	5,700.0	**	6,880.0	20.7	6,196.0	-9.9	5,800.0	1.9
Deficit-Financing	n.a.	**	5,795.0	**	3,659.0	-36.9	1,771.0	-51.6	1,311.0	-58.4
Carryover Surplus	205.4	-49.5	441.3	114.8	2,339.4	430.1	2,974.5	27.1	n.a.	n.a.

*Percent changes for FY 1989 are based on the initial budget for FY 1988.
**Cannot be calculated or meaningless.

Source: Ministry of Finance

Table 2: Supplementary Budget for FY 1988

(in billions of yen)

General Account Expenditures	
Public Works	Y598.0
Public Housing	179.4
Disaster Reconstruction	418.6
Transfers to Local Governments	2,125.6
FY 1987 Surplus	1,080.8
FY 1988 Natural Increase	1,044.8
Public Welfare Insurance	1,507.8
Miscellaneous Outlays	-26.3
Agricultural Import Liberalization	104.6
Trade Insurance	90.0
Wage Increase	144.4
Consumption Tax Introduction	162.5
Miscellaneous Reductions	-750.0
Other*	222.2
National Debt Redemption	946.9
Total	5,152.0
General Account Revenues	
Tax and Stamp Revenues	3,016.0
Other Revenues	35.5
Public Bonds	-874.0
Construction	506.0
Deficit-Financing	-1,380.0
Carryover Surplus from FY 1987	2,974.5
Expenditures	1,893.7
Transfers to Local Governments	1,080.8
Total	5,152.0

*Includes Y24.6 billion for United Nations peacekeeping forces and refugee assistance.

Source: Ministry of Finance

MOF planners were ruthless in other respects in FY 1988. Taking full advantage of favorable global oil prices, FY 1988 funds for energy programs were slashed 7.1 percent. In line with Japan's commitment to gradually reduce agricultural subsidy programs, expenditures for price supports were slashed by nearly 35 percent. Assuming that small firms have overcome the negative effects of the yen's appreciation or, perhaps, to encourage rationalization, MOF chopped outlays for small business assistance by more than one-quarter. Tokyo continued to be hard on itself, as well. The miscellaneous category, which covers administrative costs and wages among other things, was cut to its lowest level in nearly 10 years in FY 1988. Tokyo was generous to some programs but merciless with others.

The initial budget for FY 1989 shows that Tokyo intends to keep a tight rein. Although overall spending is set to expand at an initial 6.6 percent, the majority of discretionary budget items shows growth rates of substantially

less than 5 percent. Economic cooperation (6.7 percent) and defense (5.9 percent) again are treated generously. With global oil prices recovering, energy measures will receive renewed attention. The economic impact of the FY 1989 budget will be only mildly stimulative given the weak increase in public works outlays and another sharp reduction in borrowing.

Trends in discretionary spending underscore Tokyo's concern with the outstanding debt and its commitment to stimulate the economy (Table 3). Nondiscretionary spending, which includes interest payments on the outstanding debt and transfers to local governments, continues to outpace overall budget growth. Nondiscretionary outlays accounted for 37.3 percent of total expenditures in FY 1985 compared to a projected 41.4 percent in FY 1989. To hold down borrowing, therefore, Tokyo has squeezed discretionary outlays. Once again the break between the austerity-only and the austerity/expansion policies is clear: the increase in discretionary outlays jumped from 0.2 percent in FY 1986 to 5.5 percent in FY 1987 and stayed strong at 5.8 percent in FY 1988. Partly in response to a big increase in nondiscretionary spending in FY 1989, discretionary outlays are targeted to grow initially at only 3.2 percent, a comedown from the previous two years but far better than the rates of the early 1980s.

General Account Revenues - As can be seen from the income figures, this Jekyll-and-Hyde spending routine is not due to necessity. As Japan's economy has pulled out of the recession induced by the yen's appreciation, tax revenues have boomed well beyond MOF's expectations. This is particularly clear from the large carryover surpluses in FY 1987 and FY 1988 (see Table 1). The boom in tax revenues also is apparent from the large increases in revenue sharing with local governments. After badly underestimating tax revenue growth in FY 1987 and FY 1988, MOF is taking a more optimistic view in its initial estimate for FY 1989's tax and stamp revenues and is projecting a whopping 13.1 percent increase, higher than the revised figures for the past two years.

An analysis of tax revenues reveals the soundness of the underlying economy (Table 4). In keeping with past increases, receipts from direct taxes are expected to grow steadily. It is interesting that the balance between corporate and personal income tax receipts has shifted back and forth since FY 1987. Another point that will be discussed later is the decline in receipts from taxpayers who assess their own income, including farmers, self-employed businessmen and many professional service providers (doctors, for example). With the Tokyo stock market setting new records almost daily, it is not surprising that the securities transaction tax has become an important source of revenue. Since nearly doubling in FY 1986 over the previous year, the tax revenue on stock transactions has been a windfall for the government. Finally, the introduction of the consumption tax can be seen clearly. Although the government claimed that income tax cuts would outweigh the impact of the consumption tax, it obviously is expected to generate more revenue than the indirect taxes it replaces: Y3.6 trillion ($27.8 billion at Y130=$1.00) versus about Y2 trillion ($15.4 billion).

The most stunning aspect of the general account revenue picture is the drastic reduction in issues of deficit-financing bonds (see Table 1). Since FY 1986 the amount issued each year has been cut sharply, thanks mainly to the windfall in tax revenues. Nontax revenues also have shouldered part of the burden, based on receipts from the sale of government-held shares of Nippon Telegraph and Telephone Corp. (included in the miscellaneous category). The government began reducing its monopoly ownership of NTT stock in 1986 and plans to sell half of its 156 million shares by the end of 1991. Beginning in FY 1988

Table 3: Discretionary Spending in the General Account, FY 1985-FY 1989

(in billions of yen and percent change)

	FY 1985		FY 1986		FY 1987		FY 1988		FY 1989*	
Total Expenditures	Y53,222.9	3.3%	Y53,824.8	1.1%	Y58,214.2	8.2%	Y61,851.7	6.2%	60,414.2	6.6%
Minus										
Debt Service and Transfers to Local Governments	19,870.6	8.8	20,399.1	2.7	22,937.6	12.4	24,543.2	7.0	25,033.7	11.7
Equals										
Discretionary Spending	33,352.3	0.3	33,425.7	0.2	35,276.5	5.5	37,308.5	5.8	35,380.5	3.2

*Percent changes for FY 1989 are based on the initial budget for FY 1988.

Source: Ministry of Finance

Table 4: Japan's National Tax and Stamp Receipts, FY 1987-FY 1989

(in billions of yen)

	FY 1987	FY 1988	FY 1989*
Total Tax and Stamp Revenues	Y43,087	Y48,106	Y51,010
Direct Taxes	31,703	36,284	38,422
Personal Income Tax	16,188	16,928	18,172
Withheld	11,898	12,675	14,074
Self-assessed	4,290	4,253	4,098
Corporate Income Tax	13,722	17,712	18,363
Inheritance and Gift Tax	1,793	1,644	1,907
Indirect Taxes	11,384	11,822	12,588
Liquor Tax	2,042	2,066	1,801
Tobacco Excise Tax	1,012	1,011	932
Sugar Excise Tax	32	0	0
Gasoline Tax	1,596	1,314	1,365
Liquefied Petroleum Gas Tax	16	16	17
Aviation Fuel Tax	54	58	59
Petroleum Tax	190	290	438
Consumption Tax**	0	0	3,618
Commodity Tax	1,686	1,906	0
Playing Card Tax	1	0.4	0
Bourse Tax	25	54	46
Securities Transaction Tax	1,766	1,800	1,116
Travel Tax	61	0	0
Admission Tax	4	0	0
Motor Vehicle Tonnage Tax	486	532	559
Customs Duty	599	703	759
Tonnage Duty	8	8	9
Other	0	0	0
Stamp Revenue	1,806	1,973	1,849

*Projected
**New tax

Source: Ministry of Finance

Table 5: Uses and Sources of Japan's Fiscal Investment and Loan Program Outlays, FY 1985-FY 1989

(in billions of yen and percent change)

	FY 1985		FY 1986		FY 1987		FY 1988		FY 1989	
Total Outlays	Y20,858.0	-1.2%	Y22,155.1	6.2%	Y27,081.3	22.2%	Y29,614.0	9.4%	Y32,270.5	9.0%
Housing	5,289.3	-0.0	5,856.2	10.7	6,328.2	8.1	6,921.5	9.4	7,460.6	7.8
Other Social Infrastructure	3,280.9	9.1	3,694.5	12.6	3,998.7	8.2	4,450.9	11.3	4,371.3	-1.8
Welfare	595.7	-6.6	625.9	5.1	627.7	0.3	661.8	5.4	736.0	11.2
Education	745.3	-4.1	678.2	-9.0	784.1	15.6	637.6	-18.7	520.2	-18.4
Small Business	3,764.4	-5.1	3,700.0	-1.7	3,985.6	7.7	4,030.6	1.1	4,176.4	3.6
Agriculture	890.6	-13.9	902.1	1.3	907.8	0.6	979.4	7.9	924.4	-5.6
Land Conservation and Disaster Reconstruction Work	472.8	24.7	422.7	-10.6	493.0	16.6	409.8	-16.9	357.9	-12.7
Roads	1,826.4	6.7	2,024.4	10.8	2,363.0	16.7	2,512.1	6.3	2,576.8	2.6
Transportation and Communications	1,763.4	-6.6	2,015.1	14.3	2,264.1	12.4	2,229.9	-1.5	2,361.6	5.9
Regional Development	511.2	2.2	566.1	10.7	657.7	16.2	652.2	-0.8	676.6	3.7
Industry and Technology	603.3	-2.7	635.9	5.4	630.9	-0.8	687.2	8.9	758.7	10.4
Foreign Trade and Economic Cooperation	1,114.7	-13.8	1,034.0	-7.2	690.5	-33.2	1,171.0	69.6	1,420.0	21.3
Capital Investment					3,350.0	*	4,270.0	27.5	5,930.0	38.9
Total Revenues	25,858.0	4.7	27,155.1	5.0	31,081.3	14.5	33,114.0	6.5	34,570.5	4.4
Industrial Investment Special Account	31.4	554.2	61.5	95.9	144.3	134.6	91.2	-36.8	85.2	-6.6
Trust Fund Bureau Fund	20,029.0	5.9	20,738.6	3.5	24,595.8	18.6	26,206.6	6.5	26,871.3	2.5
Postal Savings	6,400.0	-7.2	7,000.0	9.4	7,900.0	12.9	7,900.0	0.0	8,500.0	7.6
Pension Contributions	3,950.0	2.6	4,300.0	8.9	4,450.0	3.5	3,500.0	-21.3	4,310.0	23.1
Other Revenues	9,679.0	18.7	9,438.6	-2.5	12,245.8	29.7	14,806.6	20.9	14,061.3	-5.0
Postal Life Insurance Fund	2,587.6	0.9	3,145.0	21.5	3,941.2	25.3	4,409.4	11.9	5,614.0	27.3
Government-Guaranteed Bonds and Borrowings	3,210.0	0.0	3,210.0	0.0	2,400.0	-25.2	2,406.8	0.3	2,000.0	-16.9

*Cannot be calculated or meaningless.

Note: All figures are based on initial budgets.

Source: Ministry of Finance

Y1.3 trillion ($10 billion) from the sale of NTT stock flowed directly into infrastructure investment projects. The result of all this extra revenue has been to put the goal of eliminating new issues of deficit-financing bonds by FY 1990 within easy reach.

Fiscal Investment and Loan Program - Details of the FILP are presented in Table 5, showing its growing importance. For the first time the FILP for FY 1989 will be equivalent to more than 50 percent of total general account outlays for that year. Whereas public works expenditures in the general account budget have been constrained, there has been significant growth in FILP funding since FY 1986. Housing and other social infrastructure, roads, and transportation and communications are traditional outlets, but Tokyo signaled its intention to boost public works spending with the addition of a capital investment line item in FY 1987. Since its introduction, the category has grown quickly and now comprises the second-largest FILP outlay. Japan's commitment to greater foreign aid also is clear from the FY 1989 FILP plan, which lists a proposed 21.3 percent increase in this area.

Just as in the general account, Tokyo is working hard at breaking its dependency on debt to help fund the FILP. Since the financial link between the FILP and the general account budget -- the Industrial Investment Special Account -- has never been strong, the FILP budget always has tapped as its main source of revenue government trust funds and the country's giant postal savings network. This reliance has increased as the government gradually has pared back its guaranteed bonds and borrowings. While this may make sense from a fiscal planner's point of view, it has implications for the liberalization of Japan's financial markets.

Tokyo is following a clear two-track fiscal policy: pumping an increasing amount of money into some areas (often in response to international commitments) while reducing outlays in others. By pushing Japan's growing public works commitment onto the mainly self-funding FILP, MOF budget planners have been able to fulfill the seemingly conflicting goals of stimulating the economy while cutting back the budget deficit. The drying up of new bond issues, however, has some unexpected consequences.

Where's The Debt?

Data in Tables 6 and 7 highlight MOF's concern over Japan's reliance on borrowing. The chickens hatched in the turbulent 1970s during Tokyo's efforts to keep the economy growing through deficit spending are coming home to roost in the 1980s and beyond. Table 6 shows the sudden ballooning of deficit financing in the second half of the 1970s and the resultant sharp increase in debt service costs. It shows as well the efficacy of recent efforts to cut the general account budget deficit.

Table 7 illustrates how rapidly the national debt has accumulated -- from under 4 percent of the nation's total output of final goods and services in FY 1970 to over 40 percent in the second half of the 1980s. Combined with their concern about Japan's rapidly aging population, MOF planners worry that fewer working Japanese will have to bear a heavier burden in coming decades. Reducing the outstanding debt is a perfectly understandable goal.

This goal, however, conflicts with Tokyo's desire to liberalize and deregulate its financial markets. In the United States the primary and the

Table 6: Japan's Current General Account Budget Deficit, FY 1970-FY 1989

(in billions of yen and percent of total spending)

Fiscal Year	Initial Budget								Revised Budget	
	Construction Bonds		Deficit Bonds		Total Bonds		Debt Service		Total Bonds	
1970	Y430	5.4%	0	n.a.	Y430	5.4%	Y290.9	3.7%	Y347	4.2%
1971	430	4.6	0	n.a.	430	4.6	319.3	3.4	1,220	12.6
1972	1,950	17.0	0	n.a.	1,950	17.0	455.4	4.0	2,310	19.1
1973	2,340	16.4	0	n.a.	2,340	16.4	704.5	4.9	1,810	11.9
1974	2,160	12.6	0	n.a.	2,160	12.6	862.2	5.0	2,160	11.3
1975	2,000	9.4	0	n.a.	2,000	9.4	1,039.4	4.9	5,480	26.3
1976	3,525	16.0	Y3,750	19.3%	7,275	29.9	1,664.7	6.9	7,375	29.9
1977	4,430	11.9	4,050	17.8	8,480	29.7	2,348.7	8.2	9,985	34.0
1978	6,050	13.6	4,935	18.4	10,985	32.0	3,222.7	9.4	11,285	32.8
1979	7,215	12.5	8,055	27.1	15,270	39.6	4,078.4	10.6	14,050	35.4
1980	6,785	11.5	7,485	22.0	14,270	33.5	5,310.4	12.5	14,270	32.7
1981	6,785	11.8	5,485	14.4	12,270	26.2	6,654.2	14.2	12,900	27.6
1982	6,516	11.5	3,924	9.5	10,440	21.0	7,829.9	15.8	14,345	30.2
1983	6,365	9.9	6,980	16.6	13,345	26.5	8,192.5	16.3	13,486	26.1
1984	6,225	9.8	6,455	15.2	12,680	25.0	9,155.1	18.1	12,781	24.5
1985	5,950	9.4	5,730	12.8	11,680	22.2	10,224.1	19.5	12,308	22.8
1986	5,700	8.9	5,246	11.3	10,946	20.2	11,319.5	20.9	11,495	21.4
1987	5,520	10.2	4,981	9.2	10,501	19.4	11,333.5	20.9	10,539	18.1
1988	5,690	10.0	3,151	5.6	8,841	15.6	11,512.0	20.3	7,967	12.9
1989	5,780	9.6	1,331	2.2	7,111	11.8	11,664.9	19.3	n.a.	n.a.

Source: Bank of Japan and Ministry of Finance

Table 7: Japan's Cumulative General Account Budget Deficit, FY 1970-FY 1989

(in billions of yen and percent of nominal gross national product)

Fiscal Year	Construction Bonds		Deficit Bonds		Refinancing Bonds		Total Bonds	
1970	Y2,642.2	3.5%	Y168.8	0.2%	0.0	0.0	Y2,811.0	3.7%
1971	3,851.1	4.7	100.9	0.1	0.0	0.0	3,952.0	4.8
1972	5,818.5	6.0	0.0	0.0	0.0	0.0	5,818.5	6.0
1973	6,943.5	6.0	0.0	0.0	Y606.8	0.5%	7,550.3	6.5
1974	8,403.6	6.1	0.0	0.0	1,254.8	0.9	9,658.4	7.0
1975	11,178.4	7.3	2,116.9	1.4	1,677.7	1.1	14,973.0	9.8
1976	14,530.1	8.5	5,492.8	3.2	2,053.6	1.2	22,076.5	12.9
1977	19,280.8	10.1	10,253.5	5.4	2,367.9	1.2	31,902.2	16.8
1978	24,964.7	12.0	14,647.2	7.0	3,003.7	1.4	42,615.6	20.4
1979	32,181.7	14.3	21,065.7	9.3	3,003.7	1.3	56,251.1	25.0
1980	38,953.5	15.9	28,257.1	11.5	3,299.1	1.3	70,509.7	28.8
1981	45,149.7	17.4	32,916.3	12.7	4,207.3	1.6	82,273.3	31.7
1982	48,589.4	17.8	40,330.1	14.8	7,562.5	2.8	96,482.0	35.4
1983	51,366.3	18.1	47,059.9	16.6	11,268.4	4.0	109,694.6	38.6
1984	53,447.9	17.6	53,074.5	17.5	15,171.0	5.0	121,693.4	40.2
1985	52,830.3	16.4	57,306.0	17.8	24,295.0	7.6	134,431.3	41.8
1986	52,745.0	15.8	58,846.3	17.6	33,535.2	10.0	145,126.5	43.4
1987	51,923.4	14.8	56,803.0	16.2	43,082.8	12.3	151,809.2	43.2
1988*	48,928.7	13.2	54,112.4	14.6	52,089.2	14.1	155,130.3	41.9

*As of the end of February 1989. Percent of GNP based on estimated FY 1988 nominal growth of 5.4 percent.

Sources: Bank of Japan and Ministry of Finance

secondary markets for government bonds are important arenas where the Federal Reserve Bank conducts monetary policy. As Japan moves away from its postwar system of regulated interest rates, the Bank of Japan -- the Fed's counterpart -- is discovering that it, too, needs a deep, dynamic government bond market to effectively conduct monetary policy. The impending end of new deficit-financing bond issues has generated trepidation among banks and securities dealers. They see the primary government bond market becoming smaller, more competitive and less profitable. If the primary market bogs down, the secondary market, which has yet to really get off the ground, also will suffer. Although new issues of construction bonds and refinancing bonds will continue (the latter, in particular, can be expected to increase), the loss of one-half of all new issues of long-term government debt already is putting a crimp on the market.

The shortage of debt may prove temporary, however, if the current surfeit of revenues dries up. Tax revenues cannot continue to outpace estimates indefinitely. The sale of NTT stock now appears less lucrative than in the first three rounds since NTT's share price has fallen from the lofty heights of 1987 despite the Tokyo Stock Exchange's upward surge. The government was forced to reduce the size of the 1988 sale because of investor resistance to the high price. As NTT's share price continues downward from its historic highs, Tokyo is worried that it will not be able to place the entire 1989 issue. If buyer resistance proves strong, MOF cannot count on the Y1.3 trillion ($10 billion) the government pocketed from the FY 1988 sale. Even if future sales are satisfactory, the revenue bonus will last only as long as the government continues to sell its stock. Although Tokyo has pledged to sell half its holdings, it must retain by law at least one-third of NTT's outstanding shares. This source of revenue will last only a few more years at best (until 1992 if Tokyo keeps to its current sale schedule). With such long-term revenues in doubt, Tokyo has been forced to turn to that most politically hated of alternatives, taxes.

Taxes: The Real Beef

The fact that tax reform proposals have contributed to the downfall of Japan's two most recent prime ministers underscores the political sensitivity of the subject. Both former Prime Minister Yasuhiro Nakasone and current Prime Minister Noboru Takeshita failed to convince the public of the need to begin restructuring Japan's tax system. Mr. Nakasone stepped down after failing to push unpopular reforms through the Diet in 1987. Mr. Takeshita staked his political life on winning passage of a very similar tax reform package. Although he eventually pushed the bills through the Diet in December 1988, he now is voluntarily resigning, his popularity eroded in part by near unanimous dislike of the 3 percent consumption tax he implemented. (Although a factor, the consumption tax played second fiddle to the damage caused by the Recruit Co., Ltd. influence-buying scandal.) Resistance to the consumption tax also is partly behind the current boycott of Diet business by the opposition parties. (The boycott, which has delayed the passage of the FY 1989 budget beyond the April 1 start of the fiscal year, also stems primarily from the opposition's attempts to hold hearings on the Recruit scandal.)

Before taking a look at the FY 1988 and FY 1989 tax reforms, one needs to know the targets of the changes:

- Direct/indirect tax balance - Among the western industrialized countries, Japan is the most dependent on personal and corporate income taxes for

revenue. Compared with 60.4 percent for the United States, 55 percent for West Germany, 46.5 percent for the United Kingdom and 32.1 percent for France, Japan derived 72 percent of total tax revenues from levies on income in FY 1988. Relying heavily on income taxes has the advantage of promoting an even income distribution and, in fact, Japan's steeply progressive income tax rates have resulted in one of the narrowest income distributions among industrialized nations. Steep rates make salaried workers feel overly taxed, however. Japanese corporations also complain that they face the highest effective tax rates in the industrialized world.

The old commodity tax structure also was inappropriate for Japan's new level of affluence. Taxes on "luxury" goods, such as sporting equipment, certain imported foods and some consumer appliances, make little sense when the government is trying to boost domestic consumption. Application of the old commodity tax system also was capricious, with taxes on fur coats, golf clubs, coffee, televisions and vacuum cleaners but no taxes on kimonos, tennis racquets, tea, personal computers and rice cookers. Finally, as the number of retired Japanese increases (the share of the population over 65 is projected to rise from 10.3 percent in 1985 to 16.3 percent in 2000 and then to 23.6 percent in 2020), dependence on income taxes means that fewer workers must support a growing retired population.

A number of other arguments are related to the structure of Japan's tax system. Heavy reliance on income taxes also can lead to large fluctuations in revenue since income is related directly to the health of the economy. Although Japan's business cycle is more moderate than that of the United States, the current tax revenue boom is clear evidence of volatility. And, because Japan's tax brackets are not indexed for inflation, "bracket creep" will push taxpayers into higher and higher brackets as their income rises. Not only does this frustrate taxpayers who feel they never can get ahead, but it also promotes bigger government since revenues have a natural increase built in.

- Equity - Japan's famed "salaryman" cannot escape the tax collector's net because taxes are withheld by employers. Nonsalaried workers, including farmers, small shopkeepers, doctors and other self-employed professionals, find it easy to evade the taxman's hooks because they voluntarily report their income. Farmers enjoy further tax breaks, holdovers from the immediate postwar years. It is not surprising that the National Tax Administration reports that doctors top the list of tax evaders. The perception that tax avoidance by the self-employed is rife has generated sayings like "9-6-4," referring to the idea that salaried workers pay 90 percent of the tax they owe, the self-employed pay 60 percent of what they owe, and farmers only 40 percent. Such broad perceptions of inequity have been a constant prod for tax reform.

- Taxes on imported goods - While originally not intended as such, the structure of some taxes discriminates against imported goods. The clearest example is the alcoholic beverage tax system. Better grades of beverages (fine whiskey and wine, for example), which generally are imported, are taxed at significantly higher rates than lower grade products, which tend to be domestically produced. European countries consistently have criticized the Japanese system for obvious reasons.

<u>FY 1988 Tax Reform</u> - The main points of the FY 1988 tax reforms, summarized in Appendix A, include reduced personal and corporate income tax rates,

the introduction of a 3 percent consumption tax, the abolition of the old commodity tax system, and reform of the liquor tax system. In terms of narrowing the income tax burden, eliminating the inconsistencies of the commodity tax structure and reducing the tax differential between imported and domestic alcoholic beverages, the reforms are a success. The changes are less successful when it comes to correcting the distribution between indirect and direct taxes, the issue of tax equity and the question of overall tax structure.

The 3 percent consumption tax has been a target of particularly intense examination in Japan and overseas. To foreign governments interested in exporting more to Japan, a tax on consumption appeared contrary to the goal of stimulating consumer spending. To Japanese businessmen the tax brings increased costs and administrative duties (despite relatively simple reporting procedures). To Japanese consumers the new tax adds to the already high cost of practically everything.

Implementation has been quite chaotic. Some retailers have absorbed the entire cost, while others have tacked on 3 percent (or more) to items that are exempt. The Japanese bureaucracy has been trying to explain the new system to domestic and foreign firms while cracking down on price gouging or attempting to jawbone prices down. Application of the tax to services and utilities is particularly messy, with variations in pricing practices appearing throughout the country.

The impact appears to be less than feared. Sales of cars in March were expected to drop in anticipation of the lower consumption tax replacing the commodity tax in April. Dealers, however, cut prices or offered rebates equivalent to the tax differential, keeping sales up. Vendors of services, in contrast, were hit by a rush of last-minute customers hoping to beat the imposition of the new tax. Supermarkets reported a 9.7 percent jump in March sales. According to a Bank of Japan survey, prices at the producer level in the first part of April were up an average 1.7 percent from the last part of March and 2.1 percent compared to the same period of April 1988. The Economic Planning Agency predicted April 22 that Tokyo consumer prices would rise 2.7 percent for the entire month. The long-term impact of the consumption tax remains uncertain, however.

But the short-term impact on popular opinion is unambiguous. Several recent polls by Japanese newspapers revealed nearly unanimous public criticism of the new tax. Besides disliking the general confusion it has caused, many feel it worsens the tax equity situation since many small businessmen are exempt (but raised prices anyway), and the majority of businesses still voluntarily report what they owe. Parents with children in school are unhappy even though the tax does not apply directly to tuition costs. School fees for libraries, lunches and maintenance will rise because of the consumption tax; parents expect this increase to be passed on to them. In the face of such discontent, the benefits of the FY 1988 reforms have receded almost completely from the popular view.

FY 1989 Reforms - The cabinet approved an outline January 27 of modest tax changes for FY 1989 (see Appendix B). Given that the first year revenue flows from the package are only Y294.6 billion ($2.3 billion) or 0.5 percent of proposed FY 1989 general account outlays, the overall economic impact should not be significant. In a few specific cases, however, the changes could have a

positive effect. The reduction in local automotive taxes, for example, would come on top of the reduction in car taxes that occurred when the commodity tax was replaced by the consumption tax. Makers of large models and sports cars, including foreign manufacturers, expect to benefit the most. Taxes on fuel oil, designed to promote oil conservation, could rise by anywhere from 70 percent to 123 percent. If a proposed reduction is adopted for certain tax-free reserves for overseas market development, firms may be less enthusiastic about opening new export markets. Overall, the FY 1989 changes address minor points, shying away from sensitive subjects still on the tax reform agenda.

Outlook

There is no sign that the ruling Liberal Democratic Party will move away from the austerity/expansion fiscal policy course any time soon. If the Recruit influence-peddling scandal leads to significant changes in top party leadership, the desire to run a steady fiscal course may become even stronger. Defense, foreign aid and public works will continue to receive a steady diet of healthy spending increases for the foreseeable future, either in the general account budget or the FILP budget. The government is almost certain to fulfill its pledge to eliminate new issues of deficit bonds by FY 1990. Whether this pledge can be extended to future budgets is unclear. Tokyo currently is making the best of a good situation. Surging tax revenues, hefty proceeds from the sale of NTT shares and a solid economy make balancing the budget and simultaneously stimulating domestic demand possible.

The longer term outlook is less sanguine. The politically expensive FY 1988 tax reform package failed to address critical issues of equity and structure. It also is unclear whether popular discontent over the new 3 percent consumption tax will force the LDP to amend or even discontinue it. As Tokyo moves to deregulate financial markets, the structure of the budget itself may become an obstacle. Deregulating the postal savings system or the government Trust Fund Bureau could put the FILP budget's existence in question. Despite current easy fiscal conditions, Japan's budget policy planners have a difficult agenda to address.

For further information, contact Jon Choy.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

Appendix A: Summary of FY 1988 Tax Reforms

Table 1: National Personal Income Tax Rates, January 1, 1988

(in millions of yen)

1986		1987		1988	
Taxable Income	Rate	Taxable Income	Rate	Taxable Income	Rate
Y0.5 or less	10.5%				
0.5 to 1.2	12.0	Y1.5 or less	10.5%	Y2 or less	10.0%
1.2 to 2	14.0	Over 1.5	12.0		
2 to 3	17.0	2 to 3	16.0		
3 to 4	21.0				
		3 to 5	20.0	2 to 6	20.0
4 to 6	25.0				
		5 to 6	25.0	6 to 10	30.0
6 to 8	30.0	6 to 8	30.0		
8 to 10	35.0	8 to 10	30.0	10 to 20	40.0
10 to 12	40.0	10 to 12	40.0		
12 to 15	45.0	12 to 15	45.0		
15 to 20	50.0				
20 to 30	55.0	15 to 30	50.0	Over 20	50.0
30 to 50	60.0	30 to 50	55.0		
50 to 80	65.0	Over 50	60.0		
Over 80	70.0				

Table 2: Local Personal Income Tax Rates, January 1, 1988

(in millions of yen)

1986		1987		1988	
Taxable Income	Rate	Taxable Income	Rate	Taxable Income	Rate
Municipal Inhabitants Tax					
Y0.2 or less	2.5%				
0.2 to 0.45	3.0				
		Y0.6 or less	3.0%	Y1.2 or less	3.0%
0.45 to 0.7	4.0				
0.7 to 0.95	5.0				
		1.3	5.0		
0.95 to 1.2	6.0				
1.2 to 2.2	7.0				
2.2 to 3.7	8.0	3	7.0	5	8.0
3.7 to 5.7	9.0	4.5	8.0		
5.7 to 9.5	10.0	9	10.0	Over 5	11.0
9.5 to 19	11.0	20	11.0		
19 to 29	12.0	Over 20	12.0		
29 to 49	13.0				
Over 49	14.0				
Prefectural Inhabitants Tax					
Y1.5 or less	2.0%	Y1.3 or less	2.0%	Y5 or less	2.0%
Over 1.5	4.0	1.3 to 3	3.0		
		Over 3	4.0	Over 5	4.0

Table 3: Income Tax Credits, January 1, 1989

	1988	1989
1. Basic Exemption		
Spouse	Y330,000	Y350,000
Dependent	330,000	350,000
2. Additional Spousal Credit	165,000	350,000
3. Additional Exemption for Dependents, Ages 16-22	---	100,000
4. Special Exemptions		
Handicapped	250,000	270,000
Widow	250,000	270,000
Working Student	250,000	270,000

Table 4: Inheritance and Gift Taxes, January 1, 1988

(in millions of yen)

	1988	1989
1. Minimum taxable inheritance		
Basic minimum	Y20	Y40
Statutory heir (per person)	4	8
2. Maximum inheritance tax rate	75%	70%
3. Entire legal inheritance of surviving spouse is exempt.		
4. Number of adopted children will be limited to one if there is a natural child or two if there are no natural children.		
5. Land purchased up to three years before death will be valued at the transaction price, not the book value.		
6. Special rates for small real estate holdings (less than 200 square meters)		
Residential	30%	50%
Business	40	60

Table 5: Corporate Income Tax Rates

	FY 1988	FY 1989	FY 1990
Basic Rates			
Retained Profits	42.0%	40.0%	37.5%
Distributed Profits	32.0	35.0	37.5
Small Corporation Rates*			
Retained Profits	30.0	29.0	28.0
Distributed Profits	24.0	26.0	28.0
Cooperatives and Nonprofit Corporation Rates**			
Retained Profits	27.0	27.0	27.0
Distributed Profits	25.0	25.0	27.0

*Corporations with equity capital of less than Y100 million and profits of less than Y8 million.
**Also includes medical-care corporations.

Table 6: Other Corporate Tax Changes

1. A portion of dividend income will be counted in gross receipts: 0 percent in FY 1988, 10 percent in FY 1989 and 20 percent in FY 1990.

2. The ceiling on the value of assets that can be fully depreciated in one year will be raised from Y100,000 to Y200,000.

3. Foreign taxes:

   a. Half of any foreign income not subject to foreign tax will be deducted from total foreign income, but the maximum ratio of foreign to total income is 90 percent.
   b. Foreign taxes paid above the usual level will not be deductible.
   c. The carryover period for losses or gains will be reduced from five years to three years.

Table 7: Capital Gains Tax, April 1, 1989

1. Capital gains from securities transactions will be taxed in one of two ways at the taxpayer's discretion:

   a. Actual gains (gains minus losses in one calendar year) will be subject to a 20 percent national tax and a 6 percent local tax.
   b. One percent of the total transaction value will be withheld by securities brokers.

2. Restraint of insider trading:

   a. Gains from the public sale of stock within three years of its initial public offering will be subject to a 20 percent tax. This applies only to those who held the stock before the initial public sale.
   b. After the three-year period, half of any capital gain will be tax-exempt.
   c. Founders and officials of the company will be subject to an additional 1 percent tax if they profit from the public sale of their stock within one year of the initial public offering.

Table 8: Indirect Taxes, April 1, 1989

a. General Consumption Tax

1. A tax of 3 percent (6 percent for cars) for the first three fiscal years will be applied to all sales and service transactions (see exemptions below). Tax liability will be calculated by using existing bookkeeping records, not special invoices. Taxes will be due twice a year.

2. Small- and medium-sized businesses with sales of less than or equal to:
   a. Y30 million per year are exempt.
   b. Y500 million per year may use a fixed value-added rate of 10 percent for wholesalers and 20 percent for all others.

3. Exemptions: exports, land sales, securities transactions, foreign exchange deals, loan interest, parimutuel betting, postage stamps, medical expenses,

education costs, and certain government administrative fees and social welfare payments.

b. Existing Indirect Taxes

1. The following levies will be eliminated: commodity taxes, playing card tax, sugar tax, admission tax, travel tax, electricity tax, gas tax and timber delivery tax.

2. The ad valorem tobacco tax will be abolished, but the specific tax will remain.

3. Taxes relating to petroleum will remain in place and petroleum transactions also will be subject to the general consumption tax.

4. Hotel, restaurant and local entertainment taxes will be modified substantially and subject to the general consumption tax.

Table 9: Alcoholic Beverage Taxes

(in yen per kiloliter)

Product	Alcoholic Content	FY 1988	FY 1989
Sake			
Special	15%	¥570,600	¥133,700
Grade 1	15	279,500	133,700
Grade 2	15	107,900	133,700
Blended Sake	15	81,600	65,700
Shochu			
Grade A	25	78,600	119,800
Grade B	25	50,900	70,800
Mirin			
Regular	13.5	74,100	21,600
Fortified	22	63,500	34,400*
Beer	--	239,100	208,400
Wine			
Regular	--	159,800	46,300
Above grade	--	60,400	46,300
Below grade	--	49,700	46,300
Sweetened Wine	12	117,300	85,000
Whiskey			
Special	43	2,098,100	1,055,980*
Grade 1	40	1,011,400	982,300
Grade 2	37	296,200	908,620
Other Spirits	37	361,800	331,400
Liqueur			
Regular	15	367,000	106,270*
Other	12	117,300	85,000
Miscellaneous			
Distilled	--	239,100	208,400
Mirin-type	13.5	74,100	21,600
Other	12	117,300	85,000

*Base rate. Total tax will depend on actual alcohol content.

Appendix B: FY 1989 Tax Reform Proposal

Individual Taxes

1. An increase from Y720,000 to Y910,000 for the deduction for home care of ill elderly persons, effective January 1, 1989.

2. The basic deduction for single parent homes headed by females will be increased. Effective January 1, 1989 the minimum taxable income rises from Y270,000 to Y350,000 for national taxes. Effective April 1, 1990 the minimum income for the single mother's inhabitant tax rises from Y260,000 to Y300,000.

3. The allowance for commuter expenses is increased from Y26,000 a month to Y50,000 a month, effective January 1, 1989.

4. The minimum income for inhabitants taxes will be reduced, effective April 1, 1989. The per capita levy minimum will rise from Y2,007,000 to Y2,064,000 and the income levy will rise from Y2,135,000 to Y2,192,000.

Corporate Taxes

1. The income tax rate for a production cooperative's income over Y1 billion will be raised from 8 percent to 9 percent, effective April 1, 1989 or the start of the company fiscal year.

2. All self-governing corporations must submit tax liability estimates after April 1, 1989 at the end of their fiscal year.

Land Taxes

1. The special exemption for the transfer of land to public use will be increased from Y30 million to Y50 million, effective January 1, 1989.

2. Land ownership registration fees will be reduced, effective April 1, 1989.

Local Taxes

Levies on certain vehicles will be reduced as follows:

Local Tax on Large Cars

(engine displacement in cubic centimeters; tax in thousands of yen)

a. Gasoline-powered vehicles

Engine Displacement	Personal Use		Commercial Use	
	Current	Proposed	Current	Proposed
2,000-2,500	Y81.5	Y45.0	Y25.0	Y13.8
2,500-3,000	81.5	51.0	25.0	15.7
3,000-3,500	88.5	58.0	27.5	17.9
3,500-4,000	88.5	66.5	27.5	20.5
4,000-4,500	88.5	76.5	27.5	23.6
4,500-6,000	88.5	88.0	27.5	27.2
Above 6,000	148.5	111.0	54.5	40.7

b. Diesel-powered vehicles

Engine Displacement	Personal Use FY 1989	FY 1990	FY 1991	FY 1992
2,000-2,500	39.5	41.3	43.1	45.0
2,500-3,000	39.5	43.3	47.1	51.0
3,000-3,500	39.5	45.6	51.7	58.0
3,500-4,000	39.5	48.5	57.5	66.5
4,000-4,500	39.5	51.8	64.1	76.5
4,500-6,000	39.5	55.6	71.7	88.0
Above 6,000	39.5	63.3	87.1	111.0

Engine Displacement	Commercial Use FY 1989	FY 1990	FY 1991	FY 1992
2,000-2,500	9.5	10.9	12.3	13.8
2,500-3,000	9.5	11.5	13.5	15.7
3,000-3,500	9.5	12.3	15.1	17.9
3,500-4,000	9.5	13.1	16.7	20.5
4,000-4,500	9.5	14.2	18.9	23.6
4,500-6,000	9.5	15.4	21.3	27.2
Above 6,000	9.5	19.9	30.3	40.7

Miscellaneous

1. Effective January 1, 1989 duties on crude oil will be reduced from Y530 per kiloliter to Y350 per kiloliter.

2. Effective January 1, 1989 duties on fuel oil and refined petroleum products will be raised as follows (in yen per kiloliter):

Product	FY 1988	FY 1989
Fuel oil A (primary)	Y1,640	Y2,790
Fuel oil A (secondary)	3,930	3,780
Fuel oil B	1,260	2,600
Fuel oil C	1,140	2,540
Naphtha	46	32
Gasoline	1,720	1,480
Kerosene	808	630
Diesel oil	1,512	1,330

3. The collection of the delivery tax on light fuel oil will be strengthened, effective October 1989.

4. The frequency of the consumption tax payment will be reduced, effective April 1, 1989. Individual proprietorships will pay the tax every three months instead of every two months as originally planned. Corporations will pay the tax every nine months rather than every six to eight months.

5. Trading of financial futures and options will be taxed. The rate and the terms are to be decided by FY 1990.

6. To promote the new consumption tax, small businesses and wholesalers can deduct the cost of installing appropriate electronic computers and cash registers between April 1, 1989 and September 1, 1990.

Estimated Revenue Effects of Proposed FY 1989 Tax Reforms

(in billions of yen)

	First Year	Out Year
National Taxes	Y73.0	Y92.0
Other National Taxes		
Increased registration and license taxes	191.0	191.0
Local Automobile Taxes	23.5	20.3
Other Local Taxes	7.1	0.0
Total	294.6	326.7

Source for all tables: Ministry of Finance